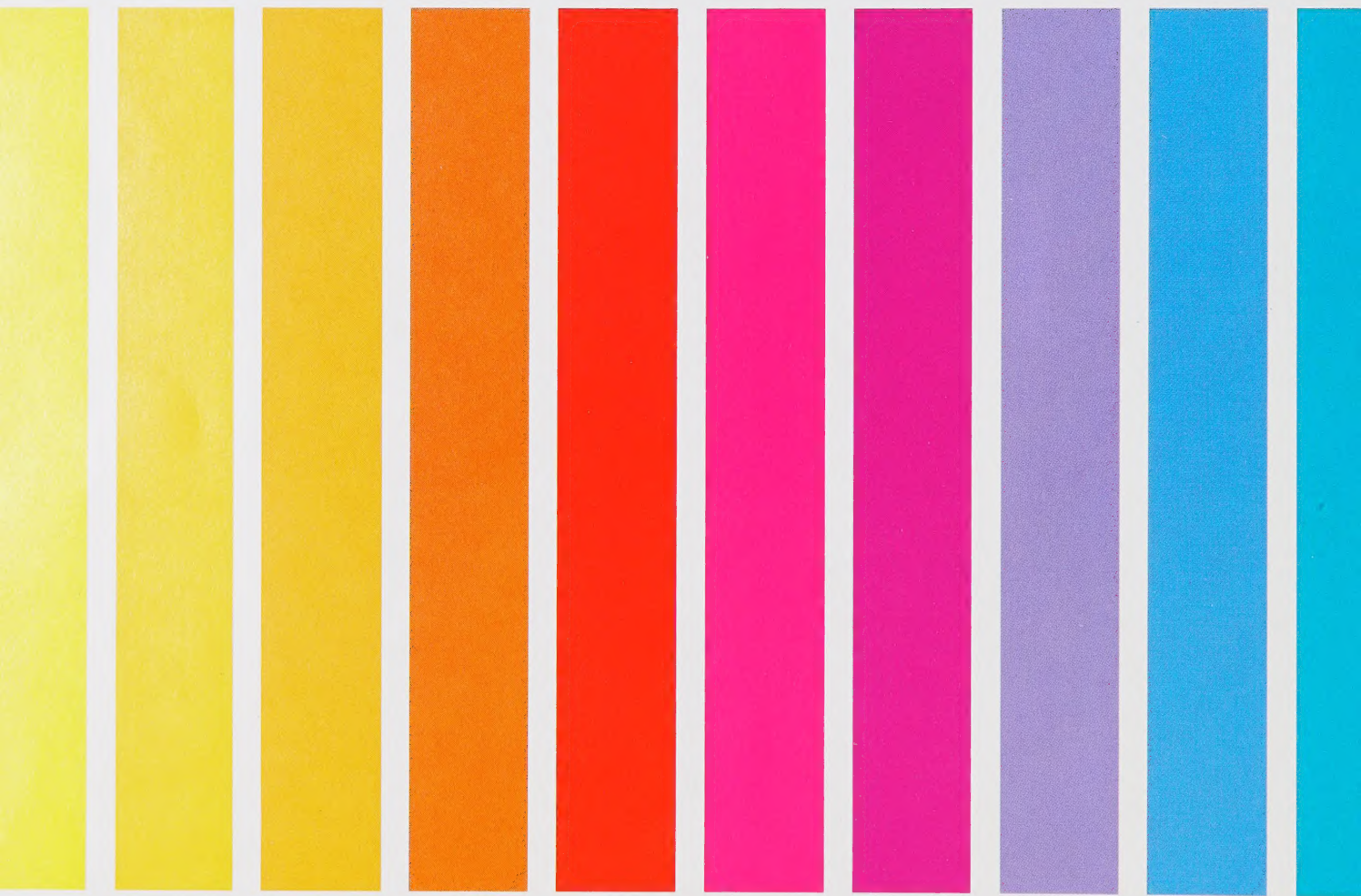


# TONECRAFT LIMITED ANNUAL REPORT 1975







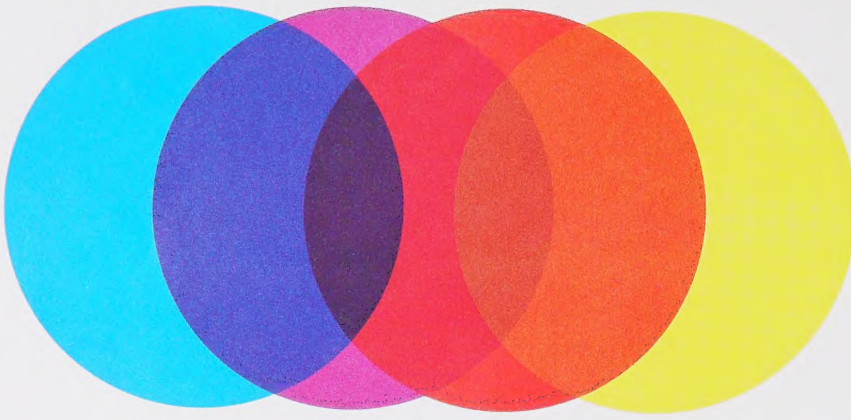


## TO OUR SHAREHOLDERS

1975 was a year of significant progress and growth for your Company. Gross revenues rose by 17.6% to reach \$21,940,000. Many factors contributed to this high growth pattern. Consumer demand for our products was very heavy throughout the year and finished particularly strong in the last quarter. Our wallpaper manufacturing facility launched, in fiscal year 1974, is now operating at full capacity and played a major role during the year in this increased growth for our Company. Additional new lines have been added to broaden the range and appeal of our wallcoverings and to continue to provide us with an important competitive edge.

During 1974 new stores were opened in Calgary, Lethbridge (Alberta), Saskatoon (Saskatchewan), Burnaby, North Vancouver (British Columbia), Winnipeg (Manitoba), Toronto, Mississauga, London, Cambridge (Ontario) and Montreal (Quebec). Six stores were moved to larger locations. The re-located stores were in Calgary (Alberta), Prince George, Nanaimo, Courtenay (British Columbia), Niagara Falls and Welland (Ontario). This increased our market



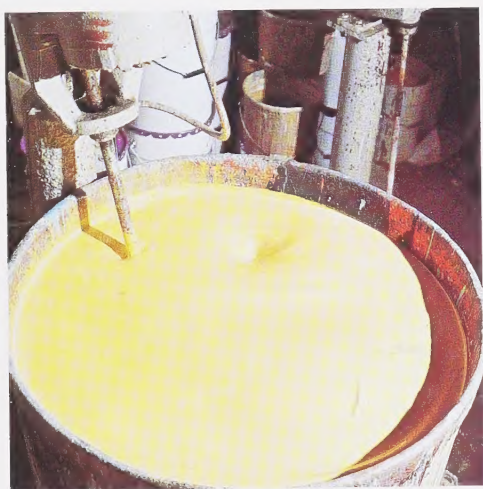


penetration to 81 stores. Three of the new stores are situated in major regional shopping centres in Toronto, Winnipeg and Montreal and constitute a test market of our new mall concept stores, developed to gain greater market saturation in high density areas.

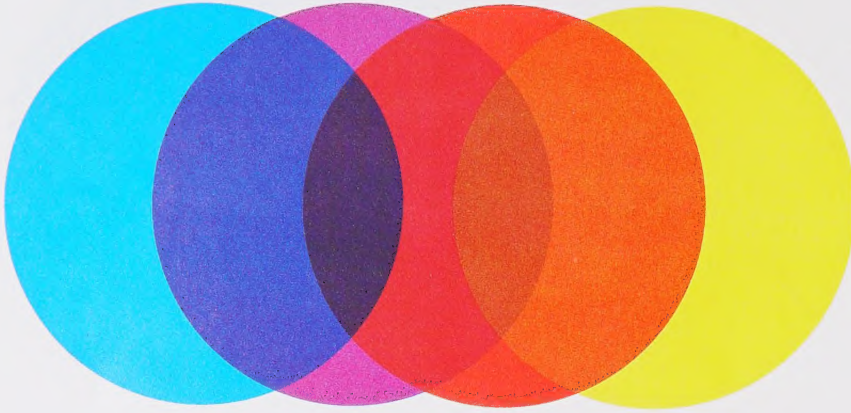
Our Research Department developed several new products in both our paint and wallcovering lines, which are currently being marketed throughout our Color Your World chain and all are enjoying widespread acceptance by the consumer.

In an effort to keep abreast of ever-changing consumer needs our sundry product lines within our stores are under constant review by our Merchandising Department. New products are added and others discontinued as we regularly update our entire line of merchandise.

Our advertising program was directed towards our prime target group, 'do-it-yourself' home owners. The promotional approach was primarily corporate in nature. Its objective was to increase the awareness of Color Your World retail outlets as offering the consumer only "best buy" products of top quality at everyday low prices, effectively merchandised





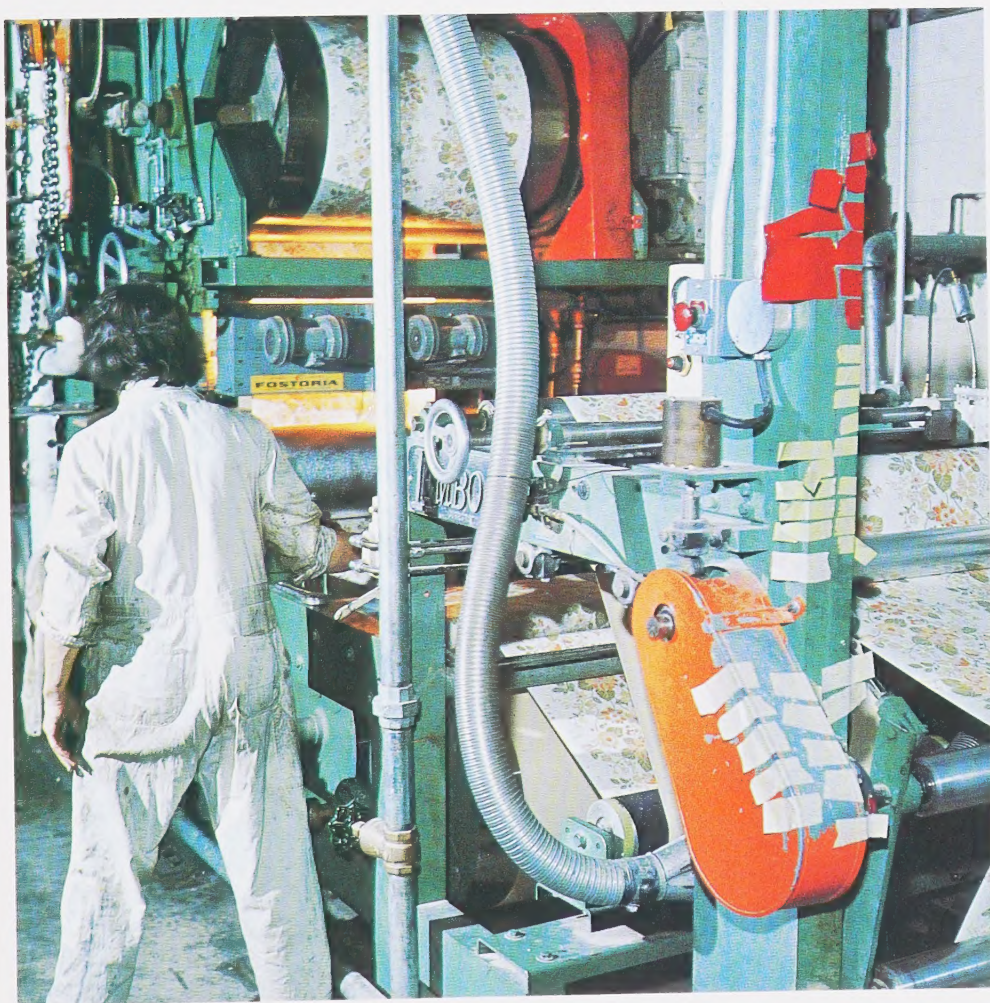


and displayed to reduce customer confusion and error when making their product selection. In 1975 the medium of television was employed with considerable effect on our awareness levels. The cumulative build-up of this advertising provides a sound base upon which we can launch another major offensive in the coming year.

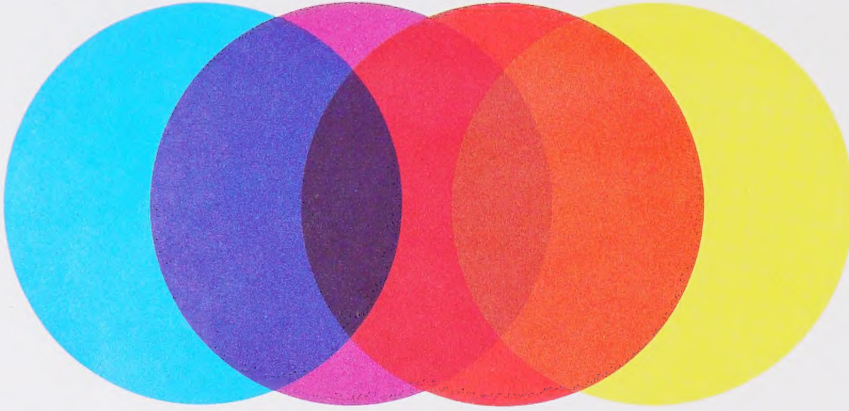
Our manufacturing facilities in Toronto and Vancouver make Tonecraft one of the industry's most automated and efficient producers of paint and paint products in Canada. During 1975 further improvements and refinements were made in our production lines to offset raw material cost escalation and to ensure retention of our competitive price edge in the market.

The construction and building industry in Canada for the first half of 1975 was very depressed largely due to few housing starts and a generally weak economy. Tonecraft sales to the professional trade reflected this industry recession. The latter half of 1975 showed a high recovery rate in the construction field and our sales improved dramatically so that at year end, sales were slightly ahead of the previous year.







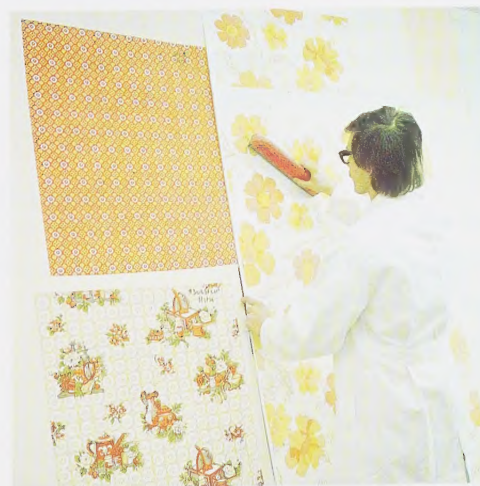


1975 was also a significant milestone for our Company as in the latter half we commenced exporting our wallcoverings to the United States. U.S. Dealer and retail reaction to our products and innovative merchandising techniques have been extremely receptive and we can look forward to major United States market penetration for our wallcoverings in the coming year.

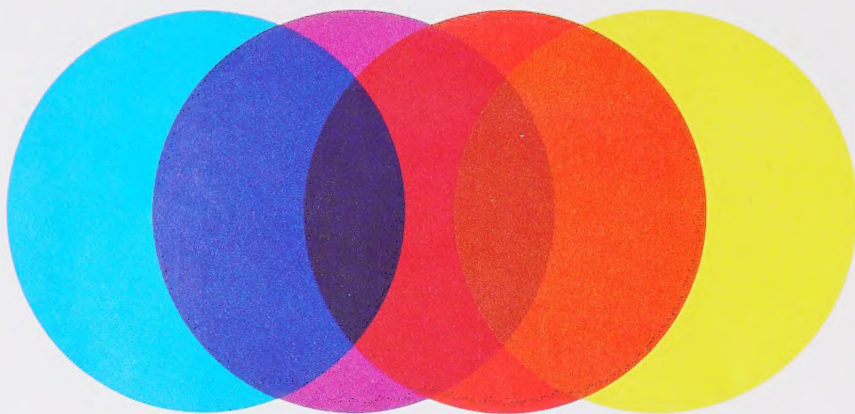
### **Future Plans**

Our plans for 1976 include making our new wallcovering manufacturing and coating facilities and our improved paint packaging systems installed in the latter part of 1975 fully operational. Our innovative store merchandising programs are continuing to have a powerful strengthening effect upon our retail sales and we can look forward to additional sales building programs being introduced in 1976. We will continue to open new stores throughout the year. These new outlets will strengthen existing major markets and open new markets to us.









We are pleased to report the continued success of our Associate Dealership program and again express our appreciation to the associates for a job well done. Similarly we would like to take this opportunity of thanking our employees for their outstanding efforts upon which we so heavily depend.

Your Directors anticipate in 1976 that our high growth patterns will continue at least as strongly as the past year due to a strengthening economy and corporate benefits derived from strong management programs and increased productivity.



Finally, your Directors wish to draw your attention to the change in accounting policy with respect to the allocation of overhead to inventories (note 2). While the effect of this change has been to show a nominal one cent reduction in the restated earnings of 1975 compared to 1974, actual earnings would have been 9.8% higher than 1974 without the change. The major benefit of the change has been in conservation of working funds in the form of \$530,000 income taxes recoverable.



# Tonecraft Limited and Subsidiary Companies

Financial Highlights	Thousands of dollars								
	1975	1974	1973	1972	1971	1970	1969	1968	1967
Gross Revenue	\$21,940	\$18,647	\$15,066	\$12,532	\$11,401	\$10,326	\$9,525	\$7,498	\$6,267
Net earnings before taxes	1,608	1,870	1,576	1,268	1,096	909	1,000	814	715
Net earnings after taxes	918	931	818	651	549	437	476	398	351
Earnings per common share*	0.65	0.66	0.58	0.46	0.39	0.31	0.36	0.32	0.29
Dividends per common share*	0.08	0.08	0.08	0.08	0.067	0.067	0.067	0.067	0.067
Working capital	185	324	648	1,527	1,446	1,071	1,425	599	1,142
Depreciation	547	473	479	395	317	226	110	72	57
Total assets	21,217	17,667	12,764	9,471	9,157	8,243	6,698	4,833	2,981
Shareholders equity	6,451	5,646	4,828	4,413	3,866	4,087	3,423	2,644	2,037
Number of common shares outstanding, year end	1,415,200	1,415,200	1,415,200	1,415,200	471,731	466,004	446,264	412,814	399,114

\*Adjusted to show comparison per share after 3 for 1 stock split. (September 1972)

1975 and comparative figures have been restated to reflect changes in accounting policy (see notes 1(f) and 2)



**Tonecraft Limited**  
(Incorporated under The Laws of Ontario)  
and Subsidiary Companies

**Consolidated Balance Sheet as at December 31, 1975**



		Thousands of Dollars	
		1975	1974
Current assets	Cash	\$ 11	\$ 9
	Accounts receivable	2,302	2,177
	Income taxes recoverable	530	157
	Inventories (notes 2 and 3)	5,498	4,788
	Prepaid expenses	239	171
Total current assets		8,580	7,302
Fixed assets	Land, buildings and equipment, at cost (note 5)	15,254	12,446
	Less accumulated depreciation	2,617	2,104
		12,637	10,342
Deferred expenses, less amortization			23
		\$21,217	\$17,667
Fixed assets and long term lease commitments (notes 7 and 8)			

**Auditors' Report**

To the  
Shareholders of  
Tonecraft Limited

We have examined the consolidated balance sheet of Tonecraft Limited and subsidiary companies as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.



		Thousands of Dollars	
		1975	1974
Current liabilities	Bank advances and acceptances	\$ 5,218	\$ 4,520
	Accounts payable and accrued liabilities	2,268	1,298
	Deferred revenue	34	71
	Taxes payable	167	122
	Principal due within one year on non-current liabilities	708	967
	Total current liabilities	8,395	6,978
Non-current liabilities (note 6)		5,374	4,448
Deferred income taxes		997	595
Capital stock	Authorized 1,615,588 common shares without par value		
	Issued 1,415,200 common shares	1,276	1,276
Retained earnings		5,175	4,370
	Total shareholders equity	6,451	5,646
		\$21,217	\$17,667
Approved by the board			
	B. F. Strongman, Director	W. M. Strongman, Director	

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of allocating overhead to inventories referred to in note 2, on a basis consistent with that of the preceding year.

Toronto, Canada, February 17, 1976

Thorne Riddell & Co.  
Chartered Accountants



# Tonecraft Limited and Subsidiary Companies

## Consolidated Statement of Earnings

Year ended December 31, 1975

	Thousands of Dollars	
	1975	1974
Gross operating revenue	\$21,940	\$18,647
Cost of goods sold and direct expenses	13,884	11,651
Gross profit	8,056	6,996
Operating expenses other than interest	5,400	4,297
Interest on non-current liabilities	551	487
Other interest	497	342
	6,448	5,126
Income before income taxes	1,608	1,870
Income taxes		
Current	288	579
Deferred	402	360
	690	939
Net income (note 2)	\$ 918	\$ 931
Earnings per common share (note 2)	\$ .65	\$ .66

## Consolidated Statement of Retained Earnings

Year ended December 31, 1975

	Thousands of Dollars	
	1975	1974
Balance at beginning of year		
As previously reported	\$ 4,629	\$ 3,738
Adjustment arising from change in method of allocating overhead to inventories, less income taxes of \$215,000 related thereto (1974, \$155,000) (note 2)	259	186
As restated	4,370	3,552
Net income	918	931
Dividends on common shares	5,288 113	4,483 113
Balance at end of year	\$ 5,175	\$ 4,370

# Tonecraft Limited and Subsidiary Companies

## Consolidated Statement of Changes in Financial Position

Year ended December 31, 1975

		Thousands of Dollars	
		1975	1974
Working capital derived from	Operations	\$1,867	\$1,756
	Term bank loans	675	500
	Mortgage proceeds	971	1,213
	Loans payable to directors		250
	Proceeds from sale of land, buildings and equipment	117	104
		3,630	3,823
Working capital applied to	Additions to land, buildings and equipment	2,936	3,529
	Dividends	113	113
	Reduction of non-current liabilities	720	523
	Deferred expenses (recovery)		(18)
		3,769	4,147
Decrease in working capital		139	324
Working capital at beginning of year as previously reported		583	834
Adjustment arising from change in method of allocating overhead to inventories		259	186
As restated		324	648
Working capital at end of year		\$ 185	\$ 324



# Tonecraft Limited and Subsidiary Companies

## Notes to Consolidated Financial Statements

Year ended December 31, 1975

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### 1. Summary of Accounting Policies

The principal accounting policies followed by Tonecraft Limited and subsidiary companies are set out below. These policies are in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of allocating overhead to inventories referred to in note 2, on a consistent basis.

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of all subsidiary companies of which Tonecraft (B.C.) Limited is the principal operating subsidiary.

#### (b) Inventories

Raw materials are valued at the lower of cost and replacement cost. Tonecraft manufactured products and resale merchandise are valued the lower of cost and net realizable value. Cost has been determined on a first-in, first-out basis.

#### (c) Deferred revenue

Deferred revenue represents prepaid associate dealer administration fees and initial association fees collected from associate dealers. The association fees are taken into earnings over a twenty-four month period.

#### (d) Depreciation

Effective January 1, 1974, depreciation has been calculated on a straight line basis. Prior to 1974 it was calculated on a diminishing balance basis.

The straight line rates adopted are substantially based on the following estimated useful lives:

Buildings	40 years
Equipment other than undernoted	15 years
Data processing equipment	10 years
Rotogravure cylinders	3 years
Leasehold improvements	the lease term

#### (e) Deferred income taxes

The companies reflect in earnings income taxes currently payable and income taxes deferred which result from claiming for tax purposes deferred expenses and depreciation in amounts which exceed that recorded in the accounts.

#### (f) Comparative figures

The 1974 comparative figures have been reclassified to include certain revenues and the direct costs associated with these revenues in the determination of gross profit. In addition, they have been restated with respect to the change in accounting practice set out in note 2.

# Tonecraft Limited and Subsidiary Companies

## Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1975

2. Change in Accounting Policy	In 1975, the company has retroactively revised the method used to allocate overhead to inventories and as a result has reduced the proportion of overhead allocated thereto. The effect of this change has been to reduce 1975 income before income taxes by approximately \$344,000 and to reduce net income for 1975 by approximately \$188,000 (13c per share). The comparative figures have been restated accordingly.
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3. Inventories	Thousands of dollars	
	1975	1974
Raw materials	\$1,331	\$1,435
Tonecraft manufactured products	3,187	2,089
Resale merchandise	980	1,264
	<u>\$5,498</u>	<u>\$4,788</u>

4. Working Capital	The company has arranged mortgage financing which will add approximately \$1,260,000 to the working capital of the company in the first quarter of 1976.
--------------------	--

5. Land, Buildings and Equipment	Thousands of dollars			1974
	Cost	Accumulated depreciation	Net	
Land	\$ 3,340		\$ 3,340	\$ 3,053
Buildings	6,159	\$ 736	5,423	4,392
Equipment	4,757	1,738	3,019	2,323
Leasehold improvements	377	143	234	82
Facilities under construction	621		621	492
	<u>\$15,254</u>	<u>\$2,617</u>	<u>\$12,637</u>	<u>\$10,342</u>

6. Non-current Liabilities	Thousands of dollars	
	1975	1974
Term bank loans* (at a rate which is fixed in relation to bank prime)	\$3,082	\$2,947
7 <sup>3</sup> / <sub>4</sub> % to 12 <sup>3</sup> / <sub>4</sub> % Mortgages payable (a weighted average of 10.43%)	2,676	1,982
Mortgages payable to directors at 11%	250	250
Notes payable at <sup>3</sup> / <sub>4</sub> % over bank prime	67	133
Other loans payable	7	103
	<u>6,082</u>	<u>5,415</u>
Less principal included in current liabilities	<u>708</u>	<u>967</u>
	<u>\$5,374</u>	<u>\$4,448</u>



# Tonecraft Limited and Subsidiary Companies

## Notes to Consolidated Financial Statements (continued)

Year ended December 31, 1975

### 6. Non-current Liabilities (cont'd)

Principal due within the next five years is as follows:

1976	\$708,000
1977	626,000
1978	728,000
1979	726,000
1980	954,000

\*The term bank loans are demand loans, repayable on specific terms up to 1981.

### 7. Fixed Asset Commitments

The companies are committed to a further investment in plant and store facilities of \$725,000 at December 31, 1975.

### 8. Long Term Leases

The companies have commitments under leases with an initial term greater than five years covering retail store locations, certain of which are sub-leased to associate dealers. The aggregate minimum rentals exclusive of occupancy costs under leases with an initial term greater than five years are as follows for each of the periods shown:

For the year:

1976	\$304,000
1977	299,000
1978	297,000
1979	282,000
1980	283,000

For the five years ending:

1985	\$1,282,000
1990	466,000
1995	242,000
2000	13,000

\$3,468,000

### 9. Anti-inflation Act

The company is subject to restriction with respect to the payment of dividends.

### 10. Other Statutory Information

	1975	1974
Depreciation	\$524,000	\$358,000
Amortization	23,000	115,000
Remuneration of directors and senior officers	304,000	263,000

# Tonecraft Limited and Subsidiary Companies

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## Board of Directors

D. R. Strongman  
W. M. Strongman  
B. F. Strongman  
J. F. McCallum  
W. G. Reid  
P. D. Wendling  
W. G. Strongman

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## Officers

D. R. Strongman, Chairman of the Board  
W. M. Strongman, President  
B. F. Strongman, Executive Vice-President and Secretary-Treasurer  
W. G. Strongman, Vice-President  
J. L. Bennett, Vice-President – Manufacturing  
W. Kenwright, Vice-President – Corporate Development  
J. E. Pinington, Vice-President – Finance

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## Transfer Agent and Registrar

Montreal Trust Company

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## Auditors

Thorne Riddell & Co.

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## Solicitors

Harries, Houser

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## Bankers

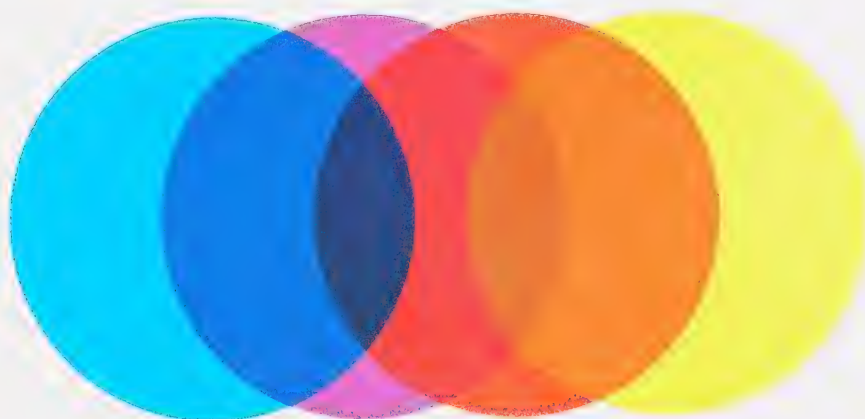
Canadian Imperial Bank of Commerce

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## Listing

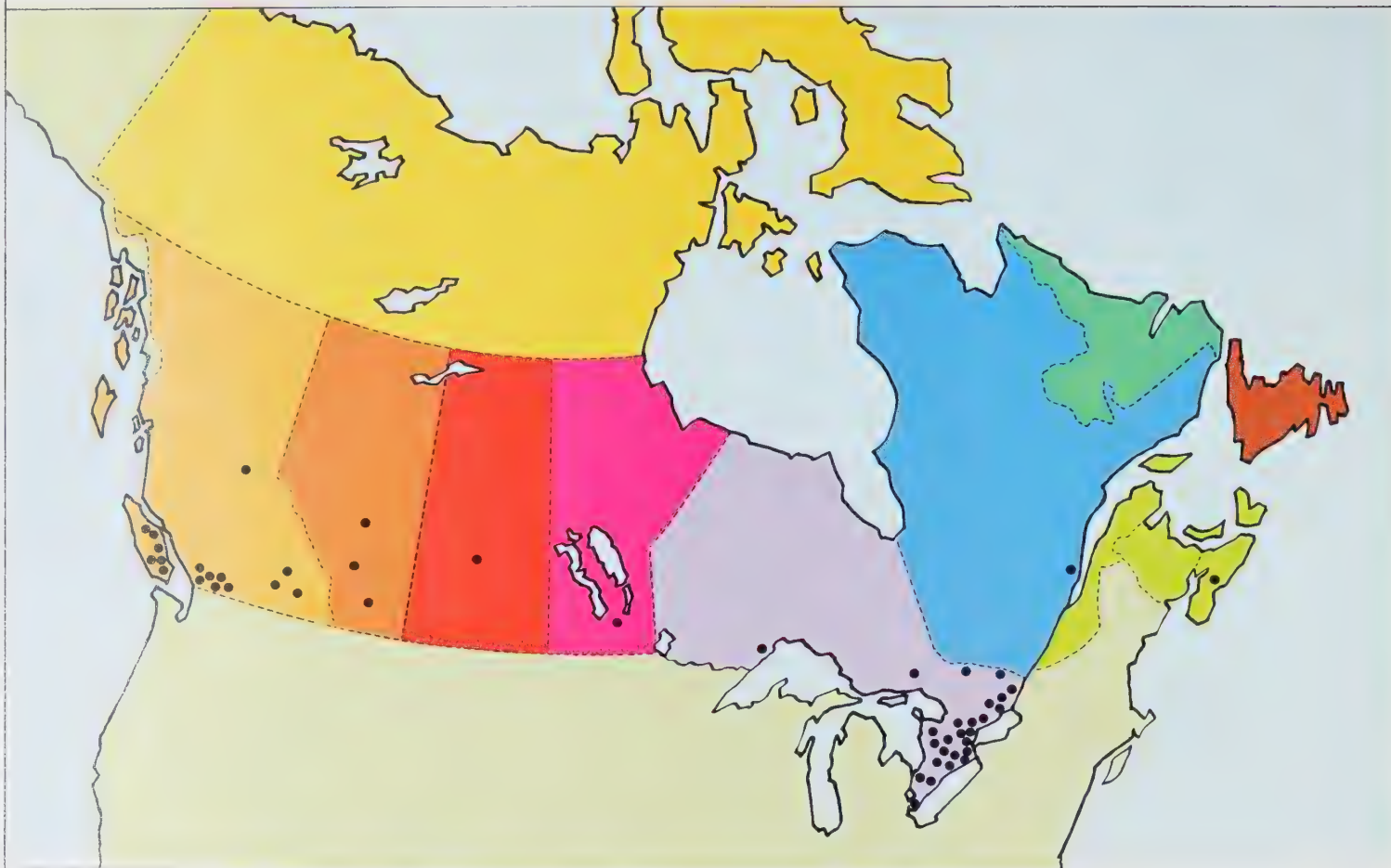
Toronto Stock Exchange

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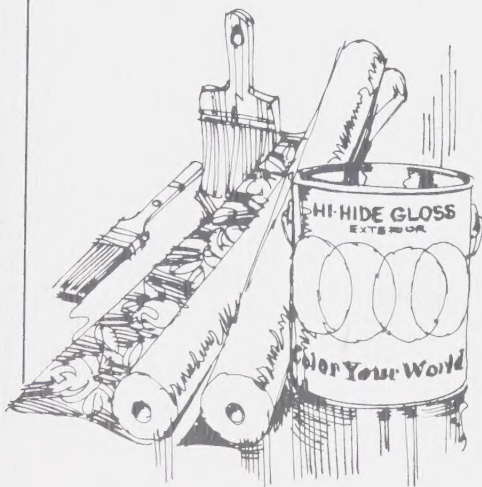


# Canada's Largest Paint and Wallpaper Retail Chain



- Halifax, N.S.
  - Montreal, P.Q.
  - Barrie, Ont.
  - Belleville, Ont.
  - Brampton, Ont.
  - Brantford, Ont.
  - Burlington, Ont.
  - Cambridge, Ont.
  - Chatham, Ont.
  - Guelph, Ont.
  - Hamilton, Ont.
  - Kingston, Ont.
  - Kitchener, Ont.
  - Lindsay, Ont.
  - London, Ont.
  - Niagara Falls, Ont.
  - Orangeville, Ont.
  - Oshawa, Ont.
  - Ottawa, Ont.
  - Pembroke, Ont.
  - Peterborough, Ont.
  - St. Catharines, Ont.
  - Sarnia, Ont.
  - Sudbury, Ont.
  - Thunder Bay, Ont.
  - Toronto, Ont.
  - Welland, Ont.
  - Windsor, Ont.
  - Winnipeg, Man.
  - Saskatoon, Sask.
  - Calgary, Alta.
  - Edmonton, Alta.
  - Lethbridge, Alta.
  - Burnaby, B.C.
  - Campbell River, B.C.
  - Clearbrook, B.C.
  - Coquitlam, B.C.
  - Courtenay, B.C.
  - Duncan, B.C.
  - Kamloops, B.C.
  - Kelowna, B.C.
  - Langley, B.C.
  - Nanaimo, B.C.
  - New Westminster, B.C.
  - Prince George, B.C.
  - Richmond, B.C.
  - Sidney, B.C.
  - Vancouver, B.C.
  - Victoria, B.C.
- Multiple Outlet Locations

AR24



**TONECRAFT  
LIMITED**

*ad camp*

1975  
Half Yearly  
Statement to  
Shareholders

*File*

**TONECRAFT  
LIMITED**



# **TONECRAFT LIMITED**

## 1975 Half Yearly Statement to Shareholders

Your Directors have declared a dividend for the quarter ended June 30th, 1975, of 2 cents per share on the Capital Stock of the Company, payable August 15th, 1975, to shareholders of record August 1, 1975.

The second quarter of 1975 has seen gradual improvement of the wholesale market from the low reported in our first quarter statement. Encouraging improvement is noted in the month of June and is continuing into the third quarter. Half year results fall short of the record first half of 1974 by \$66,761 or 12.4%, on a sales increase of \$1,028,516 or 12.8%. We anticipate continued improvement throughout the second half of 1975 with consequent recovery of our profit picture.

Development of Wallpaper products is continuing and market acceptance is encouraging. Color Your World stores now carry some 250 of our own manufactured wallpapers. During the past six months we have had a net increase of five branch stores, in addition to upgrading four other locations.

Earnings for the six month period were \$470,478 or 33.2 cents per share compared with \$537,239 or 38.0 cents per share in the same period of 1974.

Your Directors are confident that the recovery previously forecast for the second half of 1975 is well underway and annual results should reflect this.

August 1, 1975  
Dividend No. 40

B.F.Strongman  
Executive Vice-President  
and Secretary-Treasurer.

**TONECRAFT LIMITED**  
AND SUBSIDIARY COMPANIES

## Consolidated Statement of Profit and Loss

FOR THE SIX MONTHS ENDED JUNE 30, 1975  
(With comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Sales	\$ 9,037,833	\$ 8,009,317
Cost of Goods Sold	<u>5,978,989</u>	<u>4,729,294</u>
Gross Profit	3,058,844	3,280,023
Operating Expenses	<u>1,750,589</u>	<u>1,940,248</u>
Profit from Operations	1,308,255	1,339,775
Provision for Depreciation	236,831	186,953
Remuneration of Directors and Senior Officers	<u>130,468</u>	<u>123,629</u>
Net Operating Profit	940,956	1,029,193
Provision for Taxes	<u>470,478</u>	<u>491,954</u>
Net Profit for Period	<u><u>470,478</u></u>	<u><u>537,239</u></u>
No. of Shares Outstanding	1,415,200	1,415,200
Earnings per Share	33.2¢	38.0¢



# TONECRAFT LIMITED

AND SUBSIDIARY COMPANIES

## Statement of Source and Application of Funds

SIX MONTHS ENDED JUNE 30, 1975

(With comparative figures for 1974)

SOURCE OF FUNDS:	<u>1975</u>	<u>1974</u>
Operations:		
Net Income for Period	\$ 470,478	\$ 537,239
Additions not involving a		
Current Outlay of Funds:		
Depreciation & Amortization	236,831	186,953
Loss on Sale of Fixed Assets	----	1,677
	<u>707,309</u>	<u>725,869</u>
Long Term Loans	231,872	----
Mortgage Proceeds	221,305	875,000
Increase in Non-Current Portion		
of Liabilities	133,760	251,962
Sale of Fixed Assets	----	27,005
Deferred Expense (Decrease)	18,975	95,458
	<u>1,313,221</u>	<u>1,975,295</u>
APPLICATION OF FUNDS:		
Fixed Asset Additions	1,381,627	1,942,293
Dividend Payments	56,608	56,608
Mortgage Payments	151,621	126,964
Other Loan Payments	17,600	42,000
	<u>1,607,456</u>	<u>2,167,865</u>
Increase (Decrease) in Working Capital	(294,235)	(192,571)
Working Capital January 1	<u>582,760</u>	<u>834,270</u>
	<u>288,525</u>	<u>641,699</u>

(Note: Closing working capital shows the position after providing for principle due within one year on non-current liabilities - \$833,290 at June 30th, 1975.)